



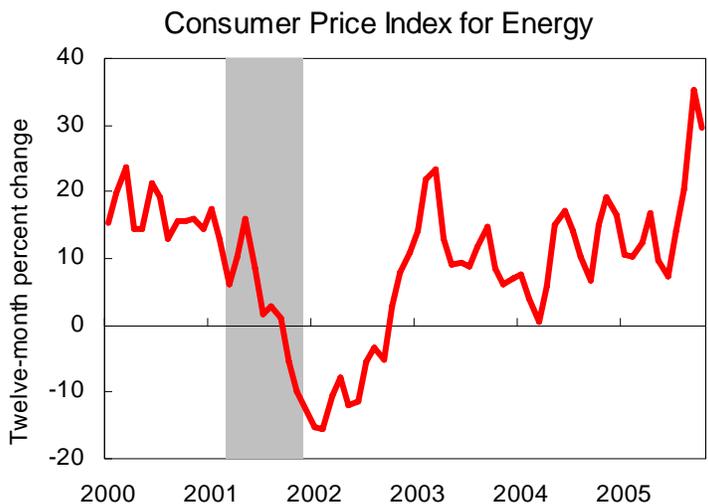
WEEKLY ECONOMIC DIGEST



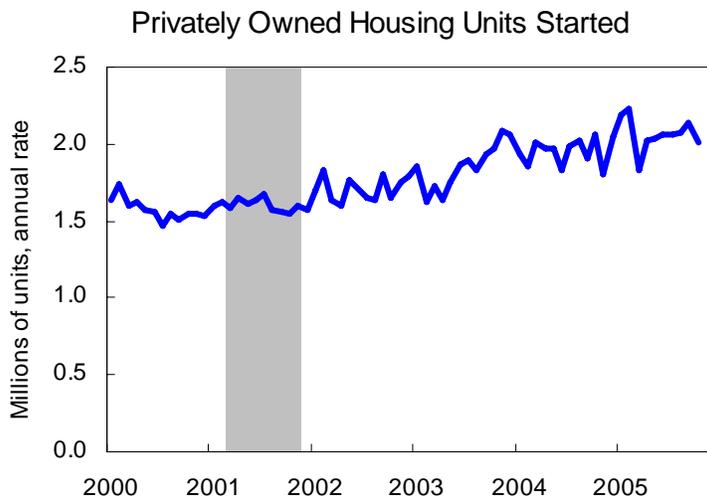
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

November 22, 2005

Energy Prices Abate and Production Rebounds in October



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.



Source: Census Bureau, U.S. Department of Commerce and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

- **Inflation moderated in October as energy prices fell slightly.** The consumer price index (CPI) rose by 0.2 percent in October after rising by 1.2 percent in September. The moderation in October reflected a 0.2 percent decline in the energy price component of the CPI, which nevertheless remained nearly 30 percent higher than it was a year earlier (see top chart). The core CPI (which excludes food and energy prices) rose by 0.2 percent, after rising 0.1 percent in each of the preceding five months. The CPI was 4.3 percent above its level a year earlier and the core was 2.0 percent higher.
- **Industrial production rebounded last month.** Industrial production rose by 0.9 percent in October, after declining by 1.5 percent in September owing to the hurricanes and a strike at Boeing. Factory production rose by 1.4 percent, pushing up the average operating rate in manufacturing to 79.0 percent of capacity. That is well above the recession low of 72.0 percent in Nov 2001, but it is still below the 81.7 percent average trend rate over the postwar period.
- **Retail sales were strong last month, apart from autos.** A 3.6 percent drop in sales at motor vehicle dealerships contributed to a 0.1 percent decline in sales at retail establishments and food services in October. Excluding motor vehicles, sales were up by 0.9 percent, well above the 0.3 percent gain that financial markets had anticipated. A jump in sales of building materials may reflect some hurricane-related recovery activity.
- **Housing starts dropped in October.** The number of privately owned housing units started last month was down by 5.6 percent from September's level to an annual rate of just over 2 million units (see bottom chart). The declines were nationwide in scope and storm-related reconstruction in the Gulf region may have kept starts from dropping even more. Yet, even with October's decline, the level of housing starts remained at a high level.

The Economy at a Glance	Oct	Sep	Aug	Jul	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004	2003
Economic Activity										
Real GDP (% growth)*	—	—	—	—	3.8	3.3	3.8	3.3	4.2	2.7
Industrial Production (% growth)	11.4	-16.6	2.4	0	0.9	1.6	3.8	4.2	4.1	0.6
Capacity Utilization (level, %)	79.5	78.9	80.2	80.2	79.7	79.9	79.9	79.4	78.6	75.7
Civilian Unemployment Rate (level, %)*	5.0	5.1	4.9	5.0	5.0	5.1	5.3	5.4	5.5	6.0
Housing Starts (thousands)	2014	2134	2081	2062	2092	2044	2083	1973	1950	1854
Real Disposable Personal Income (% growth)*	n.a.	12.3	-16.1	1.5	-0.9	1.5	1.0 [#]	4.3 [#]	3.1 [#]	2.4
Retail Sales (% growth)	-0.7	3.6	-19.9	22.4	6.9	10.8	5.8	10.0	7.3	4.3
Personal Saving Rate (level, %)*	n.a.	-0.4	-1.8	-1.2	-1.1	0.1	0.5	1.2 [#]	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	2.4	15.4	6.2	6.2	5.1	4.2	2.4	3.6	2.7	2.3
Core CPI-U Inflation (% growth)	2.4	1.2	1.2	1.2	1.5	2.0	2.6	2.3	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	3.2	2.8	2.8	3.2	3.9	3.9
Output per Hour (% growth)	—	—	—	—	4.1	2.1	3.2	2.5	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.71	3.42	3.44	3.22	3.36	2.86	2.54	2.01	1.37	1.01
T-note Rate, 10-years (level, %)	4.46	4.20	4.26	4.18	4.21	4.16	4.30	4.17	4.27	4.01
Federal Funds Rate (level, %)	3.78	3.62	3.50	3.26	3.46	2.94	2.47	1.95	1.35	1.13
Dow Jones Industrial Avg (index level)	10324	10533	10554	10545	10544	10382	10648	10362	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next two weeks.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Advance Report on Durable Goods Manufacturers' Shipments, Inventories, and Orders: October 2005** [Release: Tuesday, November 29]
- **New Residential Construction: October 2005** [Release: Tuesday, November 29]
- **Gross Domestic Product (Preliminary) and Corporate Profits: 3rd Quarter 2005** [Release: Wednesday, November 30]
- **Personal Income and Outlays: October 2005** [Release: Thursday, December 1]
- **Construction Spending: October 2005** [Release: Thursday, December 1]
- **The Employment Situation: November 2005** [Release: Friday, December 2]